

# Q2 Market Commentary 2025



Over the past quarter, global markets have experienced heightened volatility driven by geopolitical tensions, trade uncertainties, inflationary pressures, and evolving monetary policies. While certain asset classes have demonstrated resilience, broader economic uncertainty has contributed to slower growth and increased investor caution.

## Key Drivers of Market Uncertainty

### Trade and Tariffs

Trade relations have remained a focal point for global markets, with escalating tensions between major economies fostering an environment of uncertainty. The ongoing disputes between the U.S. and its trading partners have created a challenging macroeconomic landscape for investors in the short term.

The U.S. administration has emphasised its commitment to addressing what it perceives as 'unfair' trade practices, leading to discussions on reciprocal tariffs against economies with significant trade surpluses. However, uncertainty persists regarding the implementation, whether there will be any reciprocal tariffs, and whether these measures are a negotiating tool or a long-term policy shift.

This uncertainty has the potential to impact global economic growth, inflation, and interest rates over time. The positive growth environment that has been experienced recently will come under pressure, with varying effects across individual companies, sectors and geographies. As a result, an active investment approach will be crucial to navigating these complexities.

Markets traditionally react negatively to uncertainty, which has contributed to the volatility experienced during the first quarter of 2025. We anticipate continued volatility until there is greater clarity on the long-term implications of these trade disputes.

### Political Developments

In addition to trade policy challenges, investors have had to navigate risks stemming from U.S. fiscal policy and regulatory changes. Uncertainty surrounding government shutdowns and tax policies has added to market volatility, while debates over economic stimulus measures have further influenced investor sentiment.

In Europe, economic policies continue to shape equity market performance. Concerns around the pace of economic recovery and central bank policy decisions have led to mixed market responses. Additionally, increased fiscal spending on defence across European nations has raised questions about long-term debt sustainability.



## Market Shift Towards Lower Growth

The primary theme driving markets is the increasing evidence of slowing global growth and its impact on various asset classes. Several factors contribute to these lower growth expectations:

### Inflation Concerns

Although inflation has eased in certain areas, persistent supply chain disruptions and wage pressures continue to keep core inflation elevated. This has impacted consumer spending habits and corporate profitability, prompting more cautious investment strategies.

### Interest Rates

Central banks, including the Federal Reserve, European Central Bank, and Bank of England, have maintained restrictive monetary policies to manage inflation. Higher interest rates have stabilised inflation in some areas but have also constrained economic growth by increasing borrowing costs, delaying corporate investment, and dampening expansion plans.

### Global Trade

The uncertain trade environment has negatively impacted supply chains, raising costs for businesses and consumers. Higher tariffs and trade barriers could further weaken growth by increasing the price of goods and services, reducing corporate margins, and dampening global demand.





## Market Reactions to Slower Growth

### Equity Markets

As anticipated by our investment team, equity markets are beginning to acknowledge the limitations of indiscriminate price growth. Investors are increasingly favouring domestically oriented businesses less exposed to global trade risks. This trend has contributed to outperformance in regions such as the UK, Europe, and emerging markets, benefiting our portfolios.

### Fixed Income Markets

Fixed income markets have experienced heightened volatility in response to shifting economic dynamics. Government and corporate bond performance has varied, reinforcing the importance of selectivity in fixed income investments. In this environment, income generation, low correlations to equities, and careful duration management remain critical factors for success.

### Alternative Investments

Alternative assets have provided valuable diversification benefits, enhancing portfolio resilience. Lower market correlations, independent return drivers, and positive defensive characteristics have supported investor portfolios through market turbulence.

### Gold as a Safe Haven

Given heightened geopolitical and market uncertainty, gold has maintained its status as a preferred asset for risk-averse investors. Central bank purchases have remained robust, and gold's defensive properties continue to position it as a crucial portfolio component.

## The Strength of Our Diversified Approach

Despite ongoing market challenges, our diversified investment strategy has demonstrated resilience, allowing us to navigate periods of volatility effectively.

### Active Management in Equities

Our active approach to U.S. equities has mitigated downside risk by focusing on high-quality companies with strong balance sheets and stable earnings growth. While broader indices have experienced fluctuations, our emphasis on businesses with durable competitive advantages has contributed to stability.

### Fixed Income Strategy

In the fixed income space, our dynamic allocation approach has allowed us to manage interest rate risks effectively. By adjusting duration exposure and credit selection, we have balanced capital preservation with income generation, capitalising on opportunities in high-quality corporate bonds.



## Diversifiers: Infrastructure, Gold, and Defined Return Strategies

Incorporating infrastructure, gold, and defined return strategies has further enhanced portfolio resilience. Infrastructure assets have provided stable, inflation-linked income, gold has served as a hedge against macroeconomic uncertainty, and defined return strategies have helped mitigate downside risks in volatile equity markets.

## The Importance of Active Allocation

Compared to a passive or market-weighted approach, our active allocation strategy has allowed us to respond dynamically to changing market conditions. Active allocation has enabled us to overweight sectors and asset classes that we believe offer superior risk-adjusted returns while reducing exposure to areas of heightened risk.

## Conclusion

Despite macroeconomic headwinds, our actively managed and diversified approach has enabled us to navigate volatility while positioning for future growth. By maintaining strategic asset allocation and active risk management, we have safeguarded capital while identifying opportunities amid evolving market conditions.

While challenges persist, our investment philosophy remains focused on long-term value creation and adapting to shifting economic landscapes. As we move forward, we will continue to monitor developments closely and adjust our strategies to ensure resilience in an uncertain market environment.



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